

1970 GNP by Major Industry

The Nation's industries in 1970 generally experienced shrinkage or sluggish growth in real output, increases in prices and costs, and a narrowing of profit margins. Output of the goods-producing industries declined while output of the service-type industries grew relatively slowly.

DECLINES or sluggish gains in output, increases in prices and costs, and a narrowing of profit margins characterized the Nation's industries in 1970. Real GNP was down 0.4 percent from 1969, reflecting declines in the output of the goods-producing industries and below normal gains in the service-type industries. The GNP price deflator rose more in 1970 than in 1969 (5.3 percent compared with 4.7 percent) as acceleration in the rate of price increase in government, manufacturing, services, and transportation outweighed deceleration in trade, agriculture, and the utilities.

Preliminary estimates of 1970 gross national product by industry of origin, in current and constant prices, appear in table 1. Gross product originating in an industry, its value added, may be measured as the difference between the value of an industry's total output and the cost of materials and business services purchased by the industry. The same total may also be calculated by summing the industry's payments to the factors of production (employee compensation, profits, etc.) and its non-factor production costs (depreciation, etc.). The sum of the gross products of all industries is equal to the Nation's total output of goods and services, or GNP.

Changes in real output

The commodity producing industries—manufacturing, agriculture, forestry and fisheries, mining, and contract construction—account for about 40 percent of the Nation's real output of goods and services. The aggregate output of these industries last year was down 2.9 percent from the 1969 level. Manufacturing production showed the largest decrease, 3.7 percent, primarily reflecting sharp reductions in the durable goods industries. Durables were particularly hard hit by the contraction in economic activity, being affected by the cutbacks in defense production, declines in construction, retrenchment in consumer buying, and the leveling in capital investment. The General Motors strike also cut into durables production.

Output in the construction industry declined in 1970 as a result of the credit restraints imposed in 1969 and the continuing climb in costs. Nonresidential building declined throughout the year but there was an upturn in homebuilding in the latter half of the year as credit conditions became easier.

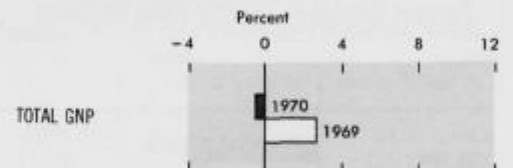
Farm output declined moderately for the third consecutive year as declines in crop production outweighed increases in livestock output.

The slackening of demand for goods in 1970 contributed to the sharp reduction in the growth of the trade industries' output (i.e., value added); the gain was 1.6 percent in 1970, down from 3.4 percent in 1969 and an average 4.8 percent in 1965–68. Expansion of the air transport industry's output turned sluggish last year and freight volume carried by rail and truck declined. Consequently, total transportation output

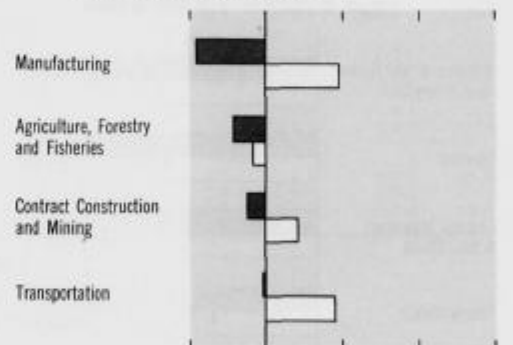
remained unchanged after 8 years of relatively rapid growth. The weakness of output and the drive to cut costs in other segments of the economy damped growth in the communication and serv-

CHART 9

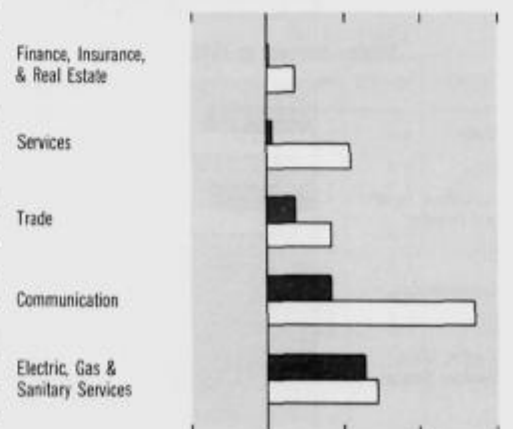
Percent Change in Real Product



Output of commodity producing and transportation industries declined last year

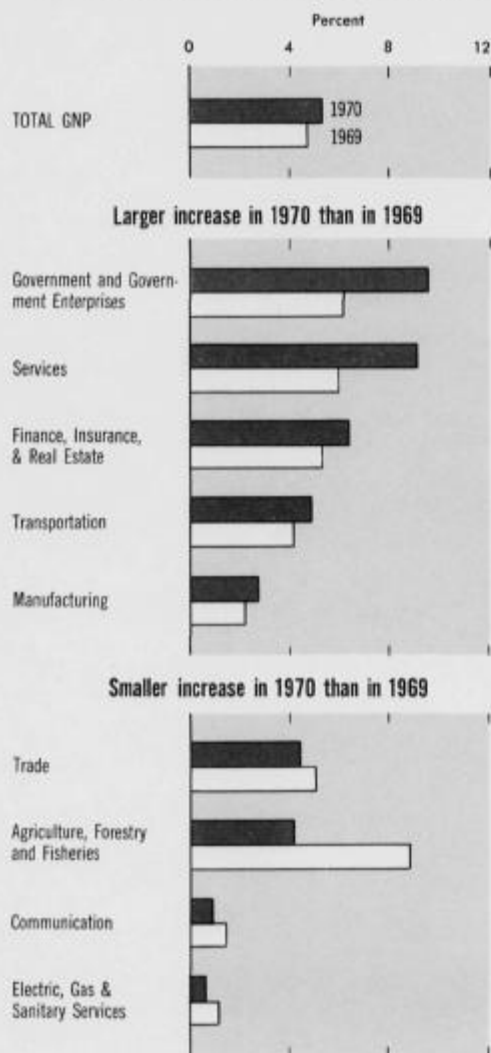


Output growth slowed in other industries



ice industries where expansion had been vigorous during the sixties. The communication industry recorded its smallest gain in more than a decade—3.4 percent in 1970 compared with more than 8 percent annually since 1961—largely, because of a slowdown in the growth of the telephone industry. There was essentially no change in the aggregate output in the services industries in 1970. Continuing gains in the output of medical and health services, auto repair, and other consumer-oriented services were offset by declines in industries offering services to businesses, such as advertising and employment agencies.

CHART 10
Percent Change in Implicit Price Deflators



Price changes

The GNP price deflator rose 5.3 percent in 1970, the largest annual advance since 1951. The increase was 4.7 percent in 1969 and averaged 3.3 percent from 1965 to 1968 (table 3). The deflator increased an average of only 1.5 percent per year from 1961 to 1965, the 4-year period of sharp output growth and essentially stable prices preceding the major U.S. buildup in Vietnam.

In 1970, as in 1969, there was an increase in the implicit price deflator for every major industry, ranging from a low of 0.6 percent for the electric and gas industry to a high of 9.5 percent for government. The increase in the government deflator was due to increases in the average compensation per employee at the Federal, State, and local levels. It should be noted that under GNP conventions, it is assumed that the productivity of general government employees does not change.

An industry's contribution to the increase in the overall price deflator depends not only on the size of its own price advance but also on its weight, i.e., its contribution to total real output. The rate of price advance accelerated in 1970 in 5 of the 6 largest industries shown in table 3, trade being the exception. The rate of price increase decelerated in the smaller industries—agriculture, utilities, and communications—but these small industries plus trade together account for only about one-fourth of real GNP.

The 1970 increase in the government deflator was so sharp that it accounted for 1.2 percentage points of the 5.3 percent in the GNP deflator, even though government accounted for less than 10 percent of total output. Trade and services each accounted for another 1.1 points of the increase. Finance, insurance, and real estate contributed about 1.0 points, while the composite of

agriculture, construction, transportation, communication, and utilities added another 0.9 points. Price changes in mining and in manufacturing were considerably below the average for the economy as a whole and thus held down the rate of increase in the overall deflator.

In the past decade, the deflator for the private nonfarm business sector of the economy has risen less sharply than the deflator for the entire economy. Within this business sector, the deflator for the manufacturing industries has advanced less rapidly than that for the nonmanufacturing industries. During the second half of the 1960's, the deflator for manufacturing increased at a steady rate of slightly over 2 percent a year, but the increase in the deflator for nonmanufacturing industries accelerated sharply. In 1970, the picture changed somewhat; the manufacturing deflator rose 2.7 percent, compared with 2.2 percent in 1969, whereas the nonmanufacturing price increase of 5.5 percent was only slightly more than the 1969 rise of 5.2 percent.

Unit costs and profits

Profits per unit of output in most industries declined sharply from 1969 to 1970, as unit costs increased more rapidly than prices. While the deflator for the private nonfarm business sector increased 4.7 percent, unit labor costs rose 6.0 percent and other unit costs increased by about 10 percent. Consequently, profits per unit of output declined about 5 percent from 1969 to 1970.

Unit labor costs continued to advance sharply in all industries in 1970, as higher employee compensation was only slightly offset by gains in productivity. However, the unit cost increase slowed somewhat in trade and in the finance, insurance, and real estate group. This resulted in a deceleration in the rise of unit labor costs for nonmanufacturing business as a whole, while unit labor costs were accelerating in manufacturing. In contrast, during the 1960's, unit labor costs in manufacturing increased much less rapidly than in nonmanufacturing.

Annual Percent Change in Deflator

	1961-65 ¹	1965-68 ¹	1968-69	1969-70
Private nonfarm business.....	1.1	2.9	4.2	4.7
Manufacturing.....	0.4	2.3	2.2	2.7
Nonmanufacturing.....	1.5	3.3	5.2	5.5

1. Compound annual rate of change from initial to terminal year.

Table 1.—Gross Product in Current and Constant Dollars and Implicit Price Deflators, by Industry

	Gross product in current dollars ¹ (billions)				Gross product in constant dollars ¹ (billions of 1958 dollars)				Index of gross product in 1958 dollars ¹ (1958=100)				Implicit deflators ² (1958=100)			
	1957	1958	1959	1970*	1957	1958	1959	1970*	1957	1958	1959	1970*	1957	1958	1959	1970*
All industries, total GNP.....	783.1	865.9	931.4	970.5	676.3	707.2	737.1	724.1	155.9	164.1	162.5	161.9	117.4	122.3	128.1	134.9
Agriculture, forestry, and fisheries.....	20.7	27.7	20.0	30.7	25.3	25.1	24.0	24.5	114.4	113.9	113.2	111.4	108.1	110.4	120.1	125.0
Mining.....	13.0	14.9	15.0	(9)	10.0	10.3	10.9	(9)	123.2	137.0	138.1	(9)	87.0	90.8	83.0	(9)
Contract construction.....	30.1	39.1	43.7	(9)	23.1	23.6	23.8	(9)	111.6	115.3	116.2	(9)	156.4	165.7	183.4	(9)
Manufacturing.....	223.7	244.0	260.1	280.2	205.4	210.9	217.5	219.0	166.1	177.1	183.9	177.1	108.9	111.4	113.9	117.0
Transportation.....	21.0	24.5	27.2	30.0	21.4	23.3	24.5	24.4	140.9	153.7	164.0	164.8	102.0	103.7	108.0	113.3
Communication.....	27.8	30.0	31.3	32.9	17.3	18.4	19.4	21.1	244.3	268.6	291.1	238.9	102.6	102.0	104.0	104.0
Electric, gas, and sanitary services.....	18.4	20.3	21.2	22.3	17.9	19.1	20.2	21.2	160.7	178.6	188.0	198.9	108.2	108.4	104.0	106.2
Wholesale and retail trade.....	129.1	143.3	155.4	164.0	113.8	120.7	124.9	128.7	161.0	180.3	190.1	189.7	114.0	118.7	124.0	130.1
Finance, insurance, and real estate.....	108.8	117.7	126.1	134.3	91.6	96.2	98.7	99.8	164.8	180.7	193.5	193.0	118.8	123.7	130.3	138.0
Services.....	87.0	95.0	105.1	114.0	63.4	66.7	68.5	68.7	147.0	163.0	180.0	190.0	137.3	144.7	153.9	167.9
Government and government enterprises.....	65.8	107.8	117.2	127.8	65.5	66.9	70.2	80.0	138.7	145.0	148.6	148.9	140.2	157.2	166.9	182.8
Rest of the world.....	4.5	4.7	4.8	4.5	4.3	4.5	4.6	4.2								
Residual ³	-7	-2.4	-4.7	-1.8	.3	-2.3	-5.4	-3.0								
Addenda:																
Private sector.....	708.8	770.1	827.8	868.2	617.6	647.0	660.4	663.4	162.4	169.5	164.5	163.7	114.5	118.0	124.2	130.1
Nonfarm business.....	657.0	714.8	767.0	800.2	573.9	608.4	622.5	619.4	164.7	182.7	187.5	187.0	114.5	118.4	122.4	129.2
Farm.....	24.6	25.5	27.5	28.1	22.9	23.8	23.6	23.2	114.0	114.0	113.0	111.1	102.8	107.3	118.0	121.5

* Preliminary.

1. Details may not add to totals because of rounding.

2. Indexes are based on unrounded data and may therefore differ from ones computed from published figures.

3. Implicit price deflators are calculated by dividing the total gross product in current dollars by the corresponding gross product in constant (1958) dollars. They are computed from unrounded data and may therefore differ from figures computed from published figures.

4. Differences between GNP measured as sum of final products and GNP measured as the

sum of gross product originating by industries. This difference in current dollars is the "statistical discrepancy."

5. Data not shown separately but included in totals.

NOTE.—Dash line (—) not applicable.

Source: U.S. Department of Commerce, Office of Business Economics.

Annual Percent Change in Unit Labor Costs

	1961-65 ¹	1966-68 ¹	1969-69	1969-70
Private nonfarm business.....	0.0	2.7	6.6	2.9
Manufacturing.....	-0.0	2.8	4.2	5.1
Nonmanufacturing.....	1.4	2.9	3.0	7.2

1. Compound annual rate of change from initial to terminal year.

Business firms were confronted in 1970 by higher interest rates, increasing charges for depreciation, and higher indirect business taxes. Most of these are overhead costs and they rose sharply per unit of output as output slackened. Such costs in 1970 rose about 10 percent in both manufacturing and non-manufacturing, compared with increases of 1.8 and 5.3 percent, respectively, in 1969.

Within the private sector, profit margins in the transportation industries narrowed the most. Unit costs in these industries rose not only because of substantial increases in cost and reduced volume of goods carried but also because their prices, subject to government regulation, tend to lag behind changes in costs. The public utilities, which are also under government regulation, were similarly affected. In manufacturing, profit margins declined because manufacturers, faced with declining demand, were unable to increase prices to cover increased costs. The only exceptions to the pattern of reduction in profits per unit of output were in the finance, insurance, and real estate group and the service industries.

Table 2.—Annual Percent Change in Real Product by Major Industry: Selected Years

	1961-65 ¹	1966-68 ¹	1969-69	1969-70
All industries, total (GNP) ²	5.9	4.6	2.8	-9.4
Agriculture, forestry, and fisheries.....	1.7	.0	-0.6	-1.0
Mining.....	2.8	3.2	3.1	(9)
Contract construction.....	2.4	0.2	0.0	(9)
Manufacturing.....	7.8	4.8	3.9	-2.7
Transportation.....	6.2	5.1	3.6	-1.1
Communication.....	3.1	5.6	10.8	3.4
Electric, gas, and sanitary services.....	5.7	5.8	5.7	5.1
Wholesale and retail trade.....	5.8	4.8	3.4	1.0
Finance, insurance, and real estate.....	5.5	4.0	1.8	.1
Services.....	4.5	4.4	4.3	.3
Government and government enterprises.....	3.6	6.7	2.4	.4
Addenda:				
Private sector.....	5.8	4.5	2.9	-6.6
Nonfarm business.....	5.1	4.7	3.2	-6.6
Farm.....	1.7	.0	-0.9	-1.7

1. Compound annual rate of change from initial to terminal year.

2. Includes "rest of the world" and the "residual."

3. Data not shown separately but included in total.

Source: U.S. Department of Commerce, Office of Business Economics.

Table 3.—Annual Percent Changes in Implicit Deflators and Unit Labor Costs by Major Industry: Selected Years

	Implicit price deflators				Unit labor costs			
	1961-65 ¹	1966-68 ¹	1969-69	1969-70	1961-65 ¹	1966-68 ¹	1969-69	1969-70
All industries, total (GNP) ²	1.5	3.3	4.7	5.3	1.8	4.5	6.7	6.8
Agriculture, forestry, and fisheries.....	1.7	2.0	8.8	4.1	-4	3.4	8.8	7.2
Mining.....	.8	-1	2.4	(9)	-2	1.3	7.1	(9)
Contract construction.....	5.3	7.2	10.7	(9)	5.3	7.0	12.3	(9)
Manufacturing.....	.4	2.8	2.2	2.7	-9	2.8	4.2	5.1
Transportation.....	.1	.8	4.1	4.0	-1.5	2.3	4.7	5.4
Communication.....	-1.1	-1.1	1.4	.0	-1.7	.3	4.5	5.3
Electric, gas, and sanitary services.....	-3.3	.4	1.2	.6	-1.5	.0	3.0	5.1
Wholesale and retail trade.....	.7	3.5	5.9	4.4	.7	3.7	6.3	5.7
Finance, insurance, and real estate.....	1.4	3.2	6.3	0.4	.6	3.8	9.3	7.8
Services.....	3.3	5.1	5.9	0.1	3.3	4.3	7.8	11.1
Government and government enterprises.....	4.1	5.0	6.2	0.5	3.8	5.6	11.4	10.2
Addenda:								
Private sector.....	1.2	3.0	4.5	4.8	.8	4.0	6.8	6.1
Nonfarm business.....	1.1	2.0	4.2	4.7	.4	3.7	6.5	6.0
Farm.....	1.5	2.5	5.9	3.0				

1. Compound annual rate of change from initial to terminal year.

2. Includes "rest of the world" and the "residual."

3. Data not shown separately but included in total.

Source: U.S. Department of Commerce, Office of Business Economics.